CO MAXX

1988

ANNUAL REPORT

CO-MAXX ENERGY GROUP INC.

Annual Shareholders Meeting

The Annual General Meeting of the shareholders of Co-Maxx Energy Group Inc. will be held, Friday, June 23, 1989 at 10:30 a.m., in the Glencoe Room of the Calgary Convention Centre, Calgary, Alberta.

Contents

#468

Corporate Profile

Co-Maxx Energy Group Inc. was formed by the January 11, 1988 amalgamation of Cochrane Oil & Gas Ltd. and Maxxwell Energy Corp. The corporate office is located in Calgary, Alberta. Co-Maxx common shares are listed on the Alberta Stock Exchange and trade under the symbol KXX.

The Company is growth focused. Its business is oil, natural gas, exploration, development and production. Major reserves and production holdings are concentrated at two locations in southern Alberta and in one area of southern Saskatchewan. Exploration is conducted in proximity to the Company's existing reserves and also in new locations throughout southern Alberta.

Co-Maxx's existing assets are 100% natural gas related and this has served to create an element of stability and predictability in the financial expectations of the Company.

Management believes in an exceptional future for natural gas producers and is continuing its past strategy to pursue increases in natural gas interests both by way of exploration and acquisition. The Company is also intent on balancing future operations as any opportunity arises to obtain oil reserves at costs that justify the investment.

Co-Maxx considers substantial future growth to be its overall priority as a means to building shareholder equity. To compete successfully over the longer term, it is management's view that the size of Co-Maxx as an economic unit must increase substantially. This is necessary to keep pace with industry standards of efficiency, which continue to escalate with the ongoing shake out of non performing organizations. Co-Maxx is well managed, financially sound and is well positioned to achieve the growth the Company needs.

To The Shareholders of Co-Maxx Energy Group Inc.

Our company enjoyed its most successful year with significant improvements in all areas of activity. It is with much pleasure that I report to you on the accomplishments of 1988.

Financial Highlights

	Gross Revenue	Earnings After Tax	Cash Flow	Earnings Per Share	Cash Flow Per Share
1988	$2,284,257	$ 165,477	$ 704,522	$ 0.04	$ 0.18
1987	2,488,628	$(1,044,020)	$(166,960)	$(0.27)	$(0.04)
Change	$ (204,371)	$ 1,209,497	$ 871,960	$ 0.31	$ 0.22

Co-Maxx has recorded earnings after tax of $165,477 for the year compared to a loss of $1,044,020 in 1987. It is the first time this decade that the Company and its predecessors reported a profit in the annual statements.

Operations cash flow for the year amounted to $704,522, which is an improvement of some $870,000 over 1987. This was achieved primarily through cost reduction measures. While revenues for 1988 were only marginally lower than for the previous year, related costs were down by 38%. Most notably, General and Administrative costs dropped from $850,572 to $312,220, a 63% decrease in 1988 compared to the prior year. The cost reductions and operating improvements reported, were one of the major priorities for management in 1988. We should now expect continued benefit from this as a permanent improvement in the ongoing activity of Co-Maxx.

Operations Highlights

	Armada Plant Gross mmcf/d	Co-Maxx Avg. Prod. mmcf/d	Proven Reserves Natural Gas (BCF)	Undeveloped Land Net Acres
1988	16.397	1.863	8.072	12,958
1987	12.580	1.775	8.754	13,526
Change	3.817	.088	(.682)	(568)

The operations highlight of particular note is the custom processing volumes of natural gas handled at our Armada Gas Plant. From mid November through February, 1989, the facility was delivering gas volumes of about 20 mmcf/d which is very close to full capacity. Co-Maxx, as of April, 1989, has made application to expand the gas plant to handle the further volume increases that are indicated to be available once more gas transportation is available on the Nova System. With regard to gas production, Co-Maxx participated in the drilling of 10 gas wells at its existing production locations. All 10 wells were successfully brought on stream late in the year and are performing up to expectations.

Exploration

Co-Maxx was able to achieve a major step toward an extensive exploration program in southern Alberta. The Company has undertaken the management and operation of this venture which contemplates annual expenditures of $1,000,000 plus on grassroots exploration prospects. Co-Maxx, in return for contributing nominal cash, management and operations expertise, will earn 25% working interest. Drilling results from this exploration program should start to be reflected toward the end of 1989.

Strategic Plan

The goal of our strategic plan is to build shareholder value in the Company. To this end, we have taken a major step in 1988 making necessary cost reductions and structuring a lean, responsive organization. This provides a significant base on which to further improve in 1989. Co-Maxx management now turns its attention to growth. Our grassroots exploration program is intended to be an area of significant growth. Our gas processing expansion at the Armada facility has the potential for long term significant growth. Acquisitions will also be a major area of endeavor.

Acknowledgements

The efforts of both corporate and field staff are readily evident in the operations and cost improvements that we have enjoyed in 1988. For this, the Board expresses its thanks and appreciation.

The Board also wishes to thank all shareholders for their support which has been especially appreciated during this post amalgamation period. Together, we look forward to future growth and continued success of the Company and your participation in this.

Respectfully submitted on behalf of the Board,

Gerald J. Hipple,
President & Chief Executive Officer
April 18, 1989

Operations Review

Co-Maxx has various working interests in 11 areas in Alberta, one in Saskatchewan and three areas in the United States. In addition, the Company owns varying interests in four gas gathering and processing systems. Co-Maxx is the managing operator of over 95% of the wells in which it maintains an interest and of three of the four gas facilities servicing these wells. Significant operations activity during 1988 was concentrated in three of the above noted areas:

Armada Area, Alberta

Co-Maxx holds various interests in 14,080 gross (3,954 net) acres in the Armada area, located 35 miles southwest of the town of Brooks, Alberta. The Armada properties contain 13 producing gas wells in which Co-Maxx holds an average interest of 35%. All wells are tied-in to a processing system in which Co-Maxx has a 37.5% interest and is the managing operator. Gross remaining recoverable gas reserves of 3,270 mmcf and net reserves to Co-Maxx of 1,921 mmcf are estimated by management to be recoverable as of December 31, 1988.

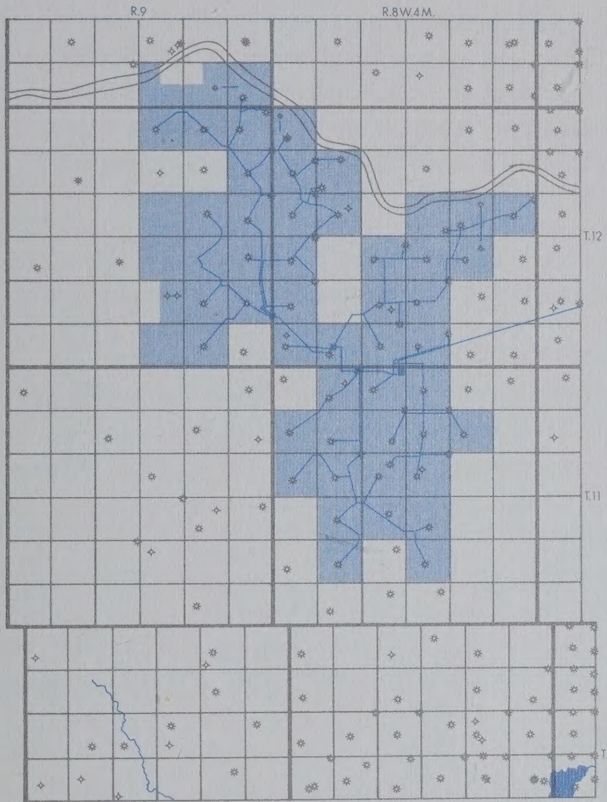
During 1988, an average of 2.625 mmcf/d of gas, .950 mmcf/d net to Co-Maxx, was produced from the Company's Armada wells. All of the producing wells in this area are under contract. Co-Maxx has two contracts with TransCanada Pipelines Limited under which Co-Maxx supplies volumes of up to 1.0 mmcf/d. Volumes of 3.0 mmcf/d are also supplied to an Ontario industrial buyer.

The Armada Gas Plant custom processes natural gas for all other well owners in the area. There are currently 38 producing wells tied-in to this system including the 13 wells in which Co-Maxx participates.

During 1988, the gas plant and related delivery system handled an average of 16.397 mmcf/d compared to an average of 12.580 mmcf/d in 1987. From mid November onward, the system was handling slightly over 20 mmcf/d which is the rated capacity of the operation. Expansion plans are in progress, but mainline transportation is restricted until late 1990 and our expansion plans have to be timed accordingly.

Co-Maxx Operations and Working Interest Lands

Armada Gas Processing System



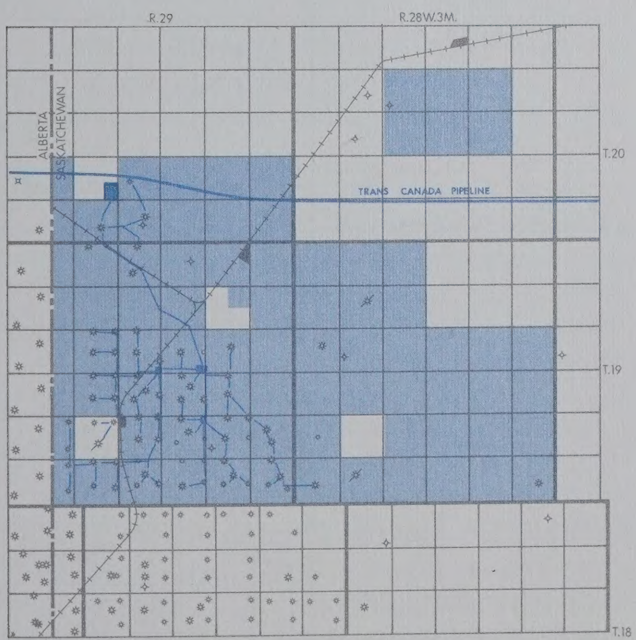
Rattlesnake Lake, Alberta

Rattlesnake Area, Alberta

Co-Maxx owns various interests in 67 producing gas wells in the Rattlesnake Area of southeastern Alberta, located approximately 20 miles west of Medicine Hat.

Gross remaining recoverable reserves of 4,800 mmcf and 970 mmcf net to Co-Maxx are estimated by management to remain at December 31, 1988. Co-Maxx has an average 20.0% working interest in the producing wells. The wells all produce from the Second White Specks zone with ten wells also producing from the Medicine Hat and Milk River Sands formations. Co-Maxx is the managing operator of the field.

The gas production is sold to the City of Medicine Hat under a long-term contract. The current production rate is 2.8 mmcf/d with a well-defined decline rate of 5% to 6% per year. The wells currently produce throughout the year directly into the City of Medicine Hat system. During 1988, an average of 2.300 mmcf/d of gas was produced from the field representing .400 mmcf/d net to Co-Maxx. Co-Maxx has approximately a 20% interest in 34,862 gross (6,584 net) acres of unproven lands in this area.



Burstall, Saskatchewan

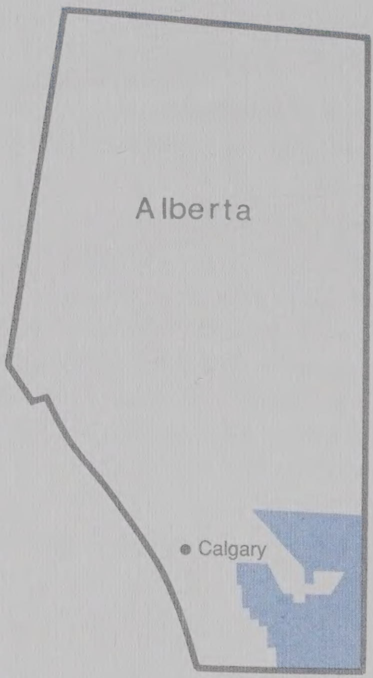
Burstall Area, Saskatchewan

Co-Maxx has a 15% working interest in 76.25 sections (48,800 acres) of land in the Burstall area of southwestern Saskatchewan. Co-Maxx is the managing operator of the project. There are three main producing reservoirs, the Milk River, Medicine Hat and Viking Sands zones. Gross recoverable reserves of 33,600 mmcf and 5,040 mmcf net to Co-Maxx are estimated by management to remain at December 31, 1988.

There are currently 60 producing gas wells, four are completed in the Viking zone and 56 produce from the Milk River and Medicine Hat zones. The gas is purchased by Saskatchewan Energy Corporation under a long term contract where the purchaser takes an average of 4.0 mmcf/d.

During 1988, an average of 4.226 mmcf/d of gas was produced from the area which represents .500 mmcf/d net to Co-Maxx. By comparison, in 1987 .170 mmcf/d net to Co-Maxx was produced.

Exploration and Development



Grassroots Exploration

Co-Maxx has undertaken to operate and manage an exploration program for oil and gas prospects in the southeastern portion of the Province of Alberta. Promising prospects have been identified but further assessment remains to be done. It is the intention to have at least five prospects available for drilling in 1989. Co-Maxx in return for its operating and exploration contributions will have 25% participation in all prospects initially. This participation will be earned at only nominal cost to the Company. The program contemplates basic exploration expenditures in the order of $1.0 to $2.0 million per year. Follow up development drilling of successful prospects represents a separate budget.

Development Activity

Burstall Saskatchewan

Seven Milk River/Medicine Hat development wells were drilled by Co-Maxx as Operator on the Burstall Area lands in September of 1988. The wells, completed and placed on production in October of 1988, continue to reflect the production characteristics of the field. The seven new wells supplement the other 53 wells (49 commingled Milk River/Medicine Hat and 4 Viking) producing under a long term gas contract with Saskatchewan Energy Corporation. Co-Maxx has 15% working interest in the property which consists of 76.25 sections.

Rattlesnake Alberta

Co-Maxx as operator drilled 3 development wells and re-completed an existing well on the Rattlesnake Area lands in October of 1988. All 4 wells were completed in the Second White Specks zone and placed on production in November of 1988. The Company maintains a 23.38% working interest in 2 of the drilled wells and a 12.99% working interest in the third well. These wells supplement the other 63 wells (7 commingled Second White Specks/ Medicine Hat and 56 Second White Specks) producing under a long term Gas Contract with the City of Medicine Hat.

Undeveloped Land

Land Holdings (acres) in which the Company maintains a working interest as of December 31, 1988 are:

	Gross	Net
Canada – Alberta	64,142	11,777
– Saskatchewan	47,741	7,129
U.S.A.	5,670	636
TOTALS	117,553	19,542

Mining Activity

Manitou Lakes Ontario

Co-Maxx has a 100% interest in 46 gold mining claims (1,840 acres) in the Manitou Lakes area of northwestern Ontario. Co-Maxx's interest is subject to a 6% carried working interest granted to the original prospector. Co-Maxx has also granted an option whereby the Optionee can earn an undivided 50% interest in the claims by maintaining them in good standing and by expending a minimum of $400,000 in exploration work on the claims prior to December 31, 1990.

The Optionee has expended in excess of $200,000 on a sampling and drilling program and assessment work is continuing. Results to date indicate an estimated 530,000 metric tonnes of ore grading an average of 0.103 ounces of gold per tonne. The gold bearing zone is a 15 to 25 foot (true thickness) volcanic rock extending in excess of 1,000 feet on strike and is open at both ends and at depth. The highest assay value encountered to date is 0.481 ounces of gold per tonne in samples from this zone.

Crystal Creek British Columbia

Co-Maxx has farmed out 100% working interest in its Crystal Creek mining claims in exchange for its proportionate share (59.375%) of a 3% net profits interest on the sale of any production of minerals or metals.

Financial Review

The improvement in Co-Maxx's financial position at the end of 1988 is clearly evident in the accompanying financial statements. The Company's achievements in the last year were primarily due to implementing ongoing cost and overhead reductions within the perspective of increasing revenue and profit levels. Cash generated from operations of $705,000 in 1988 vs ($167,000) in 1987 was sufficient to finance a capital development program, service debt, and improve the working capital position. New commitments are being carefully planned and assessed to maintain levels of risk that are in balance with the financial achievements earned in the past year.

Revenue

During 1988, oil & gas production revenues after royalties were $1,030,084 compared to $1,356,926 in 1987. The decline is attributed to the 50% sale of the Company's interest in Armada production as part of the financial restructuring which took place on January 11, 1988. Increased production at Burstall and Rattlesnake helped to partially offset the lost production from the Armada sale. Gas sales prices, which are all based on long term contract commitments, remained stable averaging $1.44 per mcf for the year.

Gas Processing revenues were $894,305 compared to $834,219 for 1987. This represents a 30% increase in overall plant volume throughput. However, 25% of the Company's interest in the plant was sold as part of the financial restructure which accounts for the 7% net increase in our share of plant revenues.

Costs & Expenses

Field operating costs were 45% of sales and other field revenues in both 1988 and 1987. Plant operating costs were 16% of processing revenue in 1988 compared to 27% of processing revenue in 1987. This improvement resulted from a combination of cost reduction and efficiency achieved because of increased volumes through the Armada gas plant.

Long term debt was reduced by $4,400,000 as a result of the financial restructuring, January 11, 1988. This accounts for the decrease in interest costs to $515,669 for 1988 compared to $843,752 in 1987. Interest rates incurred during 1988, averaged 12%. Long term debt of $102,000 was retired per the scheduled repayment for 1988.

General and administrative costs declined 63% to $312,220 from $850,572 in 1987. Staff reductions and other overhead reductions account for most of the saving.

Depletion and depreciation declined to $539,045 from $779,816 in 1987. This decline is mainly attributable to the sale of Armada properties as part of the financial restructuring in January, 1988.

Auditor's Report

To the Shareholders of
Co-Maxx Energy Group Inc.

We have examined the consolidated balance sheet of Co-Maxx Energy Group Inc. as at December 31, 1988 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

April 7, 1989

Thorne Ernst + Whinney

CONSOLIDATED BALANCE SHEET

	December 31 1988	December 31 1987
ASSETS		
Current Assets		
Cash and term deposits	$ 539,182	$ 470,298
Accounts receivable	904,920	761,407
Deposits and prepaid expenses	63,893	24,409
	1,507,995	1,256,114
Property, Plant and Equipment (note 1)	6,839,306	7,250,616
Other Assets	13,096	6,347
	$8,360,397	$8,513,077
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 937,216	$1,114,723
Current portion of gas production prepayments	65,000	28,495
Current portion of long term debt (note 2)	204,000	102,000
	1,206,216	1,245,218
Long Term Debt (note 2)	4,094,000	4,298,000
Gas Production Prepayments (note 3)	144,577	219,732
Shareholders' Equity (note 4)		
Share capital	2,750,127	2,750,127
Retained earnings	165,477	–
	2,915,604	2,750,127
	$8,360,397	$8,513,077

Contingencies and Commitments (note 7)

Approved on behalf of the Board:

Director

Director

Consolidated Statement of Earnings (Loss)

	Year ended December 31 1988	1987
Revenue		
Petroleum and natural gas sales	**$1,030,084**	$ 1,356,926
Processing revenue	**894,305**	834,219
Field operating revenue	**301,680**	254,949
Interest and other	**58,188**	42,534
	2,284,257	2,488,628
Expenses		
Operating	**599,571**	722,471
Plant operating costs	**146,541**	224,426
Interest – long term debt	**515,669**	843,752
– other	**5,734**	14,367
General and administrative	**312,220**	850,572
Depletion and depreciation	**539,045**	779,816
Other	–	97,244
	2,118,780	3,532,828
Earnings (loss) before income taxes and extraordinary item relating to income taxes	**165,477**	(1,044,020)
Income taxes (note 5)	**26,300**	–
Earnings (loss) before extraordinary item relating to income taxes	**139,177**	(1,044,020)
Reduction in income taxes due to realization of extraordinary item relating to previously unrecorded income tax benefits	**26,300**	–
Earnings (Loss) For The Year	**$ 165,477**	$(1,044,020)
Per Common Share		
Earnings (loss) before extraordinary item	**$.04**	$(.27)
Earning (loss) for the year	**$.04**	$(.27)

Consolidated Statement of Retained Earnings

	Year ended December 31 1988	1987
Deficit at beginning of year	**$ –**	$(8,085,461)
Earnings (Loss) For The Year	**165,477**	(1,044,020)
Net adjustment on corporate reorganization	**–**	2,308,255
Reduction of stated capital (note 4)	**–**	6,821,226
Retained Earnings At End Of year	**$ 165,477**	$ –

Consolidated Statement of Changes in Financial Position

	Year ended December 31 1988	1987
Cash Provided By (Used For):		
Operations		
Earnings (loss) for the year	**$ 165,477**	$(1,044,020)
Items not involving cash		
Depletion and depreciation	**539,045**	779,816
Other	**–**	97,244
	704,522	(166,960)
Interest eliminated on debt settlement	**–**	1,116,254
Changes in non-cash operating working capital	**(360,504)**	(443,688)
	344,018	505,606
Financing		
Gas production prepayments	**(38,650)**	(226,482)
Repayment of long term debt	**(102,000)**	(2,702,547)
Issue of common shares	**–**	565,809
Reorganization costs	**–**	(335,671)
	(140,650)	(2,698,891)
Investments		
Proceeds on sale of property, plant and equipment	**55,000**	2,600,000
Additions to property, plant and equipment	**(182,735)**	(764,431)
Acquisition of Maxxwell, net cash acquired of $158,090	**–**	(247,719)
Other assets	**(6,749)**	648,471
	(134,484)	2,236,321
Increase in Cash and Term Deposits	**68,884**	43,036
Cash and term deposits at beginning of year	**470,298**	427,262
Cash and Term Deposits at End of Year	**$ 539,182**	$ 470,298

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 1988

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

The consolidated financial statements include the accounts of Co-Maxx Energy Group Inc. and its wholly-owned subsidiaries, 200316 Holdings Ltd., 373829 Alberta Ltd., 328034 Alberta Ltd. and Cochrane Oil & Gas Inc.

PETROLEUM AND NATURAL GAS OPERATIONS

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis. Such costs include land acquisition costs, geological and geophysical costs, carrying charges on non-productive properties and overhead expenses related to exploration and development activities. These costs are depleted using the unit of production method based on estimated net proven reserves of petroleum and natural gas as determined by independent engineers. Petroleum and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content.

Substantially all of the Company's exploration and production activities are carried on jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

The capitalized costs less accumulated depletion and depreciation in each cost centre are limited to an amount equal to the estimated future net revenue from proven reserves (based on prices and costs at the balance sheet date) plus the cost (net of impairments) of unproved properties. The total capitalized costs less accumulated depletion and depreciation of all cost centres, less deferred income taxes, is further limited to an amount equal to the estimated future net revenue of all cost centres less estimated future general and administrative expenses, financing costs and income taxes.

GAS PROCESSING PLANT AND FACILITIES

Gas processing plant and facilities are depreciated on a straight-line basis over their estimated useful life of twenty years.

OTHER EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Depreciation of other equipment and leasehold improvements is provided on the diminishing balance basis at rates which will amortize the assets over their estimated useful lives.

MINING PROPERTIES

Mining claims are recorded at the original cost of all claims acquired in each area of interest. Exploration and other expenditures pertaining thereto have been deferred and will be amortized, together with the cost of the related mining claims, against production from future mining operations. If all claims in an area of interest are surrendered, the cost of the claims and the related exploration expenses will be charged to earnings.

All of the mining claims are in the exploratory and development stage and a determination has not yet been made whether these properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mining claims and deferred expenditures are dependent upon the existence of economically recoverable reserves and upon future profitable production.

FOREIGN CURRENCY TRANSLATION

All monetary assets and liabilities denominated in U.S. currency are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Other assets are translated at historical exchange rates. Revenue and expense items (excluding depreciation and depletion which are translated at the same rates as the related assets) are translated at the average rate of exchange for the year. Exchange gains and losses are included in earnings for the year.

SEGMENTED INFORMATION

The Company's activities are primarily in one business segment, oil and gas exploration, development and production and are conducted substantially in Canada.

1. PROPERTY, PLANT AND EQUIPMENT

	1988			1987
	Cost	Accumulated depletion and depreciation	Net	Net
Petroleum and natural gas leases and rights including exploration, development and equipment thereon	$10,904,976	$7,265,093	$3,639,883	$3,884,811
Gas processing plant and facilities	3,115,970	531,983	2,583,987	2,727,542
Office equipment	155,558	94,197	61,361	75,754
Leasehold improvements	156,118	120,228	35,890	43,950
	14,332,622	8,011,501	6,321,121	6,732,057
Mining claims	160,000	–	160,000	160,000
Drilling and camp equipment	18,804	18,804	–	474
Deferred expenditures	358,185	–	358,185	358,085
	536,989	18,804	518,185	518,559
	$14,869,611	$8,030,305	$6,839,306	$7,250,616

2. LONG TERM DEBT

	1988	1987
Bank term loan	$4,298,000	$4,400,000
Principal amount due within one year	(204,000)	(102,000)
	$4,094,000	$4,298,000

The bank term loan is repayable over a period of seven years, is secured by the Company's petroleum and natural gas leases and rights and a fixed and floating charge debenture. Interest on the bank term loan is payable monthly at a rate of 1.5% over the bank's prime rate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Long term debt principal repayments are scheduled as follows:

1989	–	$ 204,000
1990	–	600,000
1991	–	696,000
1992	–	996,000
1993	–	1,104,000
1994	–	698,000
		$4,298,000

3. GAS PRODUCTION PREPAYMENTS

Amounts received for annual contracted natural gas volumes not taken by purchasers are deferred and recognized as revenue when deliveries are made over a ten year period commencing November 1, 1984.

4. CAPITAL STOCK

(a) Authorized

The authorized share capital of the Company consists of:

An unlimited number of Common Shares without nominal or par value.
An unlimited number of First Preferred Shares without nominal or par value.
An unlimited number of Second Preferred Shares without nominal or par value.

Issued

At December 31, 1988 and 1987 the Company had 3,919,043 Common Shares outstanding.

(b) Reduction of Stated Capital

Pursuant to a plan of arrangement the Company's deficit at December 31, 1987 was eliminated by a reduction of $ 6,821,226 in the stated value of the Company's share capital.

5. INCOME TAXES

(a) As at December 31, 1988, fixed assets which are carried at $6,839,306 in the consolidated balance sheet are fully deductible for income tax purposes. In addition, the Company has other deductions available to reduce or eliminate income taxes that would otherwise be recorded as a charge against income of future years. Details of these deductions, the benefit of which has not been recorded in the accounts (all subject to final determination by taxation authorities) are approximately as follows:

	Canada	United States
Loss for income tax purposes		
(expiring in varying amounts beginning in 1989)	$ 960,000	$ –
(expiring in varying amounts beginning in 1995)	–	905,000
Excess tax values over net book value of property, plant and equipment	60,000	–
	$1,020,000	$ 905,000

(b) Income tax expense differs from the amounts which would be obtained by applying the Canadian basic federal income tax rate of 47% (1987 - 46%) to respective years' earnings (loss) before income taxes. The difference between the computed "expected" income tax provision and the actual income tax provisions are summarized as follows:

	1988	1987
Computed "expected" tax provision (recovery)	$ 77,800	$ (480,200)
Non-deductible Crown charges net of provincial credits	31,300	(11,700)
Federal resource allowance	(82,800)	(36,700)
Non-taxable portion of capital gain	–	52,000
Tax benefit of loss not recognized	–	476,600
	$ 26,300	$ –

6. RELATED PARTY TRANSACTIONS

During the year the company paid $15,200 in consulting fees to a director of the Company in his capacity as a geological consultant.

7. CONTINGENCIES AND COMMITMENTS

(a) The Company has a lease agreement in respect of office premises for which future minimum payments are approximately as follows:

1989	–	$50,821
1990	–	50,821
1991	–	50,821
1992	–	38,000

(b) A statement of claim has been filed against the Company for $170,000 regarding the Company's purchase and sale of certain assets. On August 13, 1987 the Company was granted Summary Judgement and the claim was dismissed, with costs. The claimant has appealed the judgement. The outcome is not determinable at this time, however management is of the opinion that the claim is unfounded and without merit.

Corporate Information

Head Office

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Donald L. Campbell
President,
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Calgary, Alberta

Douglas L. Fraser
President,
Galvanic Analytical Systems Ltd.
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Roger H. Giovanetto
President,
R & H Engineering Ltd.
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Gerald J. Hipple
President & Chief Executive Officer,
Co-Maxx Energy Group Inc.
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Dr. Thomas Parks
President,
Parks Resources Ltd.
Calgary, Alberta

Officers

Gerald J. Hipple
President & Chief Executive Officer

B. John Schmidt
Controller

Bankers

Treasury Branches of Alberta
Calgary, Alberta

Legal Counsel

McLeod Dixon
Calgary, Alberta

Auditors

Thorne Ernst & Whinney

Registrar & Transfer Agent

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Stock Exchange Listing

Alberta Stock Exchange
Trading Symbol – KXX

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